Billing: The Lifeblood of Your Business—Does Yours Measure Up?

A Roadmap to Assess Your Billing Performance and Audit Your Billing Practices

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Billing represents one of the most critical aspects of a medical practice, impacting your revenue, cash flow, and overall financial results. Yet many physicians do not have a clear understanding of their billing performance and, more importantly, how it affects the bottom line. This article examines key areas of medical billing, including steps to analyze your practice’s performance against industry benchmarks. It also includes a real-world case study that highlights one practice’s billing performance and opportunity for improvement.

Key words: Billing; medical billing; dermatology billing; derm billing; billing analysis; billing performance; outsource billing; revenue cycle management; billing collections; accounts receivable; Aesyntix; Aesyntix Health; Aesyntix Billing Solutions.

One of my favorite quotes is, “You can’t manage what you don’t measure.” It started for us as kids in school, when our work was managed by our teachers using the traditional grading system (A = good; F = not so good). In business, and specifically for dermatology practices, your “report card” consists of many areas that impact the cash flow and profitability of your business.

This article discusses how to accurately measure your billing performance and provides steps to perform your own analysis—with an easy-to-use “dashboard” tool that incorporates industry benchmarks or “healthy” ranges. A real-world case study also is provided at the end of the article.

THE IMPORTANCE OF BILLING—AND REVENUE—PERFORMANCE

While it’s fairly easy to determine your profitability (revenue minus expenses equals profit), it’s critical—and more difficult—to measure your billing performance, which directly correlates to the revenue line. You and your administrator(s) may look at provider productivity (patient appointments and charges) as one metric, however that does not tell the whole story.

The collections that your billing team is responsible for often go unmeasured, leaving you without a clear picture of how well you’re really doing in terms of cash flow and profitability.

Collections is a key part of the equation. This is the metric that tells you whether or not you are being paid successfully for your services. Specifically, your collections provide an indication whether charges are being billed correctly, being processed by payers, and being paid in a timely manner. This directly impacts the revenue factor in the profitability formula above. Unfortunately, the collections that your billing team is responsible for often go unmeasured, leaving you without a clear picture of how well you’re really doing in terms of cash flow and profitability.
Whether you outsource your billing or manage it in-house, it’s imperative to measure on a monthly basis the performance of the team responsible. But how do you accomplish that if you don’t quite understand the billing process or don’t have the time to dig through data and reports trying to figure out what’s working or not? Waiting until your cash flow is down is not the time to begin measuring and managing the billing team. It should be a proactive, monthly exercise that takes minutes—not hours or days.

Many in-house managers do not have billing experience, and those that do are often too distracted by daily “fires” to closely monitor billing performance. Even some outsourced billing companies don’t know what or how to measure, or in some cases they simply don’t want you to know—the reverse effect of “You can’t manage what you don’t measure.”

By following a proven methodology and steps for completing your own analysis, you can gain a general sense of how your billing performance measures up.

When you inquire about the status of your billing, you may hear “Billing is going well,” or “Collections are up.” Or perhaps you’re told of a Medicare issue or system glitch that has impacted claims processing and collections. These are surface comments and issues that can redirect your attention and provide a false sense of security around your cash flow and health of your business. In truth, many managers often don’t know the right questions to ask or reports to review in order to fully understand and measure billing performance. Or they simply don’t make the time around other “priorities.”

HOW DO YOU MEASURE BILLING PERFORMANCE?

Throughout my 12 years consulting with dermatology practices, I have specifically focused on billing analyses. My presentations at American Academy of Dermatology and Association of Dermatology Administrators & Managers meetings in recent years have focused often on financial analysis, benchmarking, and measuring performance. I’d like to share with you my proven methodology and steps for completing your own analysis—in just minutes—that will provide a general sense of how your billing performance measures up.

The specific steps include:
1. Pull data from financial reports.
2. Input data into “dashboard” tool (spreadsheet).
3. Compare your results to industry benchmarks (“healthy” ranges).
4. Identify practice trends and areas of opportunity.

Below I will outline each step, walk you through the analysis process, and discuss the key data you should be looking at.

Step 1: Pull data from financial reports.

Many practices fail to get past steps 1 and 2 because they don’t know what data to pull. The basic information you need to analyze your billing performance includes:
- Charges;
- Adjustments (contractual);
- Collections;
- Total accounts receivable (A/R) balance;
- A/R aging analysis (0–30 days, 31–60 days, 61–90 days, 91–120 days, and 120+ days); and
- Patient encounters.

When gathering these data from your reports, there are a few important factors to consider:

1. Time Period: Your data for each of the items above must be for the same time period, ideally for a 12-month period, which helps identify trends or patterns. Often, I have received reports reflecting different time periods and even incomplete months, which makes the analysis process much more difficult. Reviewing a single month (which can be good or bad based on practice variables) is not nearly as enlightening as reviewing a quarterly or annual time period.
2. Accurate Data: Make sure data being pulled are accurate. I recently received a practice’s information that was not consistent from one report to another. For example, the A/R Report stated there was $230,000 in outstanding A/R, while the Production Report listed $1,300,000 in A/R. Obviously, this huge discrepancy indicates something wrong—either with the report pulled or the included data. Pay close attention to accuracy of the data you pull. It should be straight forward and consistent.
3. Clinical vs. Cosmetic Data: It’s highly recommended to separate your clinical data from your cosmetic data. This enables you to review the data separately as well as combined (total practice). It’s important to know that cosmetic-related data will have an impact on certain ratios and calculations, since there are no adjustments associated with those charges and payment is typically collected at time of service (e.g., no A/R balances).

Most practice management systems today have production or performance reports that will have most of the above information (charges, adjustments, collections, A/R, encounters). I typically review the last page of a report and pull the monthly totals for the 12-month period for each category. The drill-down detail is helpful once you have identified a trend or “red flag,” but not needed for the initial analysis. Also, most A/R aging analysis
reports will have the A/R balance and the “buckets” or number of days the balance is spread across.

**Step 2: Input data into dashboard tool (spreadsheet).**

Once you have that “raw” data, you need some sort of analytical tool to make sense of the information—that is, bring the numbers to life and tell your practice’s story. I typically provide my presentation attendees with a tool I’ve created—called the “dashboard”—which they can take back to their practices and use immediately. This dashboard is a spreadsheet that allows you to input your data and then calculates ratios into an easy-to-read format that can be shared with your owners, supervisors and billing staff (Figure 1).

Note: This fully functional tool is available at www.aesyntix.com/resources/ (click on “Billing Sample Dashboard—Spreadsheet”). Feel free to download the spreadsheet and customize as needed. This is just one tool for a quick analysis, and you may want to create your own or customize this template. There also is an accompanying presentation (titled “How To Read Financials & Benchmarks”) that you can preview.

**Step 3: Compare your results with industry benchmarks (healthy ranges).**

Once your data are entered and calculated in the spreadsheet, it’s time to review the trends and compare your information with healthy ranges. This is just the beginning of performance measurement. There may be times when your information exceeds the industry benchmarks (which is good), but they are trending downward (which may not be good). This scenario should draw your attention and make you want to understand why the numbers are not moving in the right direction.

If you just see you are within or above the healthy range, you may gain a false sense that performance is great. But what you might not see, for example, is that you were 10% above the benchmark at the beginning of the year and now (just a few months later) you are only 2% above that mark. Something is driving the change, and now that you have measured it, you can manage it. Certain points in time are important to measure, but comparing that information with a healthy range and identifying trends is equally critical.

**Step 4: Identify practice trends and areas of opportunity.**

The next step is to look at trends to determine areas for opportunity. Below I’ve highlighted some key points for each category/calculation of data:

- **Charges:** There are several factors that can impact charges. For example, if a provider takes time off or performs more general dermatology procedures (versus surgical procedures) charges may be less from one month to another. Not only does this impact the current
A Dermatology Medical Billing Case Study

Overview
This case study is based on an existing U.S.-based dermatology practice that recently engaged Aesyntix Billing Solutions (ABS) for a no-cost, no-obligation analysis of its billing performance.

Typical of many dermatology practices, this one had a mix of general dermatology and MOH providers, with experienced billing staff and management. Still, the owners/providers questioned how well—or not—the practice was doing in terms of billing. While collections were growing at 15% per year, leading some to believe the practice was doing well, there was a feeling among the providers that they were “working harder” for less money, which prompted the call to ABS.

Billing Analysis Process
In order to accurately analyze the practice’s billing performance, ABS needed to collect the following information covering a 12-month period:

- Practice profit and loss statement;
- Practice production report; with charges, adjustments, collections and encounters practice accounts receivable balance and aging analysis breakdown (e.g., 0–30 days, 31–60 days, etc.); and
- Any other relevant financial or billing reports.

As noted in the main article, one of the key steps in this analysis was to separate cosmetic/cash business data from third-party reimbursement/insurance data. In this practice’s case, the cash business was doing extremely well—growing at 30% year over year, despite the challenging economy. However, these results were covering up problems with insurance collections.

After breaking out the insurance collections data, ABS quickly identified some issues and areas for improvement. Table 1 is a summary of the data provided by the practice—again, insurance information reimbursed encounters only.

It’s apparent that this practice is a busy one, in terms of third-party reimbursement, upon review of charges, adjustments, collections, and ratios. While it produces $5.5 million in gross charges, however, its adjustments total more than half of that ($3 million), raising several questions, including whether or not the practice’s fee schedule had been updated recently. The answer was yes. The practice confirmed its fee schedule was set at 150% of Medicare’s allowable rates—an industry best practice.

Given this fee schedule, a realistic adjustment rate for this practice would be 35% to 45% (this varies by practice based on a number of variables). Yet this practice’s adjustment rate was a whopping 55%, leading ABS to ask further questions:

- Are the data accurate, with correct reports and appropriate timeframes?
- Are the adjustments accurate and categorized accordingly, or is there a high amount of write-offs simply because claims weren’t paid or the biller arbitrarily adjusted the amount?
- Are there any unique circumstances with the practice, such as capitated contracts, workers’ compensation claims, or other contractual nuances?

Answering these questions for any practice may yield additional insight into billing performance and financial results.

The next step in ABS’ analysis was to examine the net collection ratio, which indicates the amount of collections for money contractually owed to the practice (assuming correct adjustments). With this practice’s high adjustment rate, the amount of money the practice is legally entitled to collect is down to $2.5 million (from gross charges of $5.5 million). Again, with a high adjustment rate one might hope there will be at least a high net collection ratio—perhaps 100%. But, unfortunately for this practice, its net collection ratio was a staggering 60%. In this case, the practice was leaving approximately $1 million of collectible money on the table.

While the owners/providers did raise questions, the billing team was very convincing about its performance, saying that the 15% increase in collections was a strong indication that “things are going well.” But a closer look at collections and, specifically, net collection ratio, would have signaled that an increase in business—more patients seen, more collections—should increase revenue much greater than 15%.

Upon further analysis, ABS noted that the billing department was struggling to keep pace with its workload—processing claims in a timely manner, following up on denials, billing secondary insurance, sending patient

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statements, follow-up calls, etc.—even before the increased business. The growth simply added workload for a staff that was already “underwater” and “overwhelmed”—instead of yielding greater returns.

While the ratios are a strong indicator of the practice’s billing performance, or lack thereof, it’s also critical to review accounts receivable (A/R). Industry benchmarks—or “healthy” ranges—indicate a practice’s A/R should be approximately 150% of its monthly charges. In this practice’s case, the A/R is at 265% ($1.2 million on monthly charges of $458,000). This signifies the practice is not collecting payment (or turning charges over to collections) in a timely manner.

Furthermore, the practice’s days sales outstanding (DSO)—how long it takes to collect a dollar owed—is at 80 days, versus the industry benchmark of 25 to 40 days. With the emergence of electronic remittance advice, which facilitates faster payment, the DSO should drop even further, but that’s clearly not the case with this practice.

One other area of concern identified by ABS was the practice’s A/R aging, which showed 45% past 120 days. A practice will have some level of current (or even 0–60 days) A/R; however, this amount of “old” A/R shows that the billing staff either was not working A/R or simply could not keep up. The result, unfortunately, is hundreds of thousands of dollars left uncollected by the practice.

**Key Takeaway**

In this case, the owners/providers were unaware of the financial “bleeding” within their billing department. While surface numbers appeared to indicate growth and strong performance, the billing staff was actually struggling, which was further perpetuated by increased business. Because leadership did not have a true understanding of their billing process and performance, it was not able to take the necessary action required to improve the practice’s financial results. This, unfortunately, is not uncommon among dermatology practices. The good news is that this practice is now aware of its billing issues and opportunities for improvement, and has taken the initial steps to “right the ship,” which ultimately should result in increased revenue for the practice and its providers.

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<th>Monthly</th>
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<td>Adjusted Charges</td>
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**Adjustment Percentage**

55%

**Collection Performance**

| Total Net Collections | $1,500,000 | $125,000 |
| Net Collection Ratio | 60% | 60% |

**Accounts Receivable Management**

| Accounts Receivable (A/R) | $1,215,000 |
| 0–30 | $300,000 | 25% | 40%–60%* |
| 31–60 | $185,000 | 15% | 15%–20% |
| 61–90 | $100,000 | 8% | 5%–10% |
| 91–120 | $80,000 | 7% | 5%–10% |
| 121+ | $550,000 | 45% | 10%–15% |

| A/R % of Charges | 265% |

| Days Sales Outstanding | 80 | 25–40 days* |
| 0–90 A/R | $585,000 | 48% | 60%–80%* |
| 91+ A/R | $630,000 | 52% | 20%–40%* |

*Healthy ranges derived from the Allergan/BSM financial database health ranges.
†Data adjusted to provide confidentiality.
‡Industry average.

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**Adjusted Charges**: It’s critical to know how much you legally are entitled to collect from your insurance carriers. Adjusted charges are calculated for you in the dashboard (charges—adjustments = adjusted charges). If the adjustments are accurate, the practice knows exactly what it should collect. This is very important when looking at the net collection ratio.

**Adjustment Percentage**: This is another calculation in the dashboard (contractual adjustments / charges). Remember, including cosmetic charges will result in a lower percentage because you have higher charges with no adjustments. Knowing what percentage you typically adjust off helps you understand and manage adjustments. This also serves warning to your billing team that someone is looking, often the best way of encouraging people to do the right thing. We typically see a 30% to 40% adjustment ratio. If a practice has a high fee schedule, the percentage may be closer to 45; if the fee schedule is lower or the practice has more fee-for-service charges, the percentage will be lower. Your contracts, fee schedule, and adjustments entered will all impact this ratio.

**Collections**: Knowing the historical trend and collections total is important but can be misleading if that’s all you’re looking at. I have worked with providers who were very proud to tell me their billing team is terrific, saying for example “our collections have increased 20% each quarter the last two years.” However, when asked about net collection ratio or other metrics, they have no idea. I then find out, for example, they have added providers and are working more hours/days, thus increasing charges—but not achieving collections commensurate with that additional activity. The point is, even though more money is coming in, providers may be working harder, spending more money, and not doing as well—profit-wise—as they think. And this doesn’t even factor increased A/R balances, delayed claims, or timely filing issues due to staff’s inability to “keep up” with the increased patient visits.

**Net Collection Ratio**: This tells you what percentage of adjusted charges (what you’re legally entitled to collect) the practice actually collected (net collections / adjusted charges = net collection ratio). The healthy range is 97% to 100% (Allergan/BSM Consulting financial benchmarking database). Keep in mind there is a “bad debt” or “write off” amount from patients that refuse to pay, which is typically 1% to 3%.

**A/R**: I am often asked “How much A/R should we have?” As long as it is current (0–60 days), you don’t need to be too concerned with A/R. The next ratio, A/R percentage of gross charges, is more important to consider.

**A/R Percentage of Gross Charges**: This takes your A/R total and divides it by that month’s charges. The healthy range for A/R is 1.5 times your monthly charges (or 150% of your monthly charges). Cosmetic charges included in this calculation will cause the percentage to be lower.

**A/R Days Sales Outstanding**: A/R days sales outstanding (DSO) measures how many days it takes to collect a dollar owed. The healthy range is 25 to 40 days (Allergan/BSM Consulting financial benchmarking database). With electronic remittance advice becoming more prevalent, enabling practices to get paid faster, that range should be coming down. Higher A/R DSO may be a sign your staff is not getting out “clean” claims or is not working denials, or that your payers are taking longer to pay. This is just another data point to give you an idea on how the billing process is going.

**A/R 0–90 Days, 91–120 Days**: Aging buckets show where your money is in the collection process. Obviously, it’s more challenging to collect money beyond 90 days. If your older buckets are growing, it could mean your staff is not working the A/R or addressing specific payer issues. Regardless, older A/R requires your attention and a plan to change that trend.

**Patients Entered, Collections per Patient, Charges per Patient**: These are simply data points to help you look into and address what may be causing downward trends.

**CONCLUSION**

Once you’ve completed steps 1 to 4 and have a clearer picture of trends, challenges, and opportunities, it’s time to set goals and take action to improve your billing performance. It’s equally critical to continue measuring on a monthly basis. Taking a few minutes each month to gather these key data, populating a spreadsheet, and comparing the output to healthy ranges will present a true picture on how your billing team is performing—in terms of collecting what you’re legally entitled to. Not only does measuring and managing your mission-critical billing create greater accountability within your practice, it typically will increase your revenue and cash flow. And after all, that’s the bottom line.

For more information on conducting a billing analysis, or questions about this article, contact the author.